GDWorld

GENERAL DYNAMICS — A STRONG COMPANY FOR A STRONG COUNTRY

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Lockheed Acquires General Dynamics' Military Aircraft Business

Also in This Issue:

Keeping Cobwebs Off Assembly Lines: A View of International Sales in the Global Defense Marketplace

Foreign sales help to preserve critical elements of the defense industrial base by assuring a certain level of business despite the decline in domestic sales. They also drive down unit costs, create a more competitive production base, and contribute to keeping production lines vital to U.S. security "warm" and capable of responding quickly to national security emergencies.

The announcement at a December 9 press conference that the Lockheed Corporation and General Dynamics had reached an agreement for Lockheed to acquire GD's Tactical Military Aircraft business dramatically underscored consolidation as essential to the viability of the Defense Industrial Base in the shrinking post-Cold War U.S. aerospace and defense industry. In response to a question, Chairman William A. Anders once again emphasized that the Lockheed sale and other transactions in 1991 and 1992 are not a prelude to liquidation of General Dynamics.

The $1.5 billion transaction, which was closed in late February, has been described by various analysts as a "dramatic leap forward" and "bold example" of the defense industry consolidation needed to reduce overcapacity in the industry.

Like the nuclear submarines, armored vehicles, and space launch systems businesses, the military aircraft business had exhibited the key ingredient General Dynamics is focusing on in each of its "core defense competencies" — major platform integration. For military aircraft, specifically, major platform integration meant having premier capabilities in research, design, development, and systems integration for both the manufacture and upgrading of tactical aircraft. It also exhibited two other characteristics essential to qualifying as one of GD's core defense competencies: the potential to be number one or possibly number two in its market and to obtain Critical Mass. The economies of scale achieved through obtaining and maintaining Critical Mass give the customer the affordability it is demanding as defense budgets and production rates continue to decline.

Essentially dependent on the F-16 for its current business, the forecast for the long-term survival of the military aircraft franchise was in question as the nation progressed further into 1992. It became clear that eventually the program would start tapering off and overhead rates would rise, thus threatening the continued viability of this core competency. Vacant capacity generates costs that the government customer cannot tolerate in an era of falling budgets. Even though the military aircraft business enjoyed congressional support for new domestic sales and F-16 modifications and won some key international sales, including the extension of the F-16 Midlife Update Program, more was needed. The situation was compounded by another compelling factor — the USAF's rising concern over the burgeoning overhead rates on the F-22 program.

These concerns and the continually changing shape of the marketplace led GD's management to reassess once again the long-term potential of the tactical military aircraft business. And like so many other companies now being forced to make hard decisions between buying or selling, GD began to explore ways to expand the Fort Worth Division's business base to get additional production into the plant and thereby strengthen the franchise.

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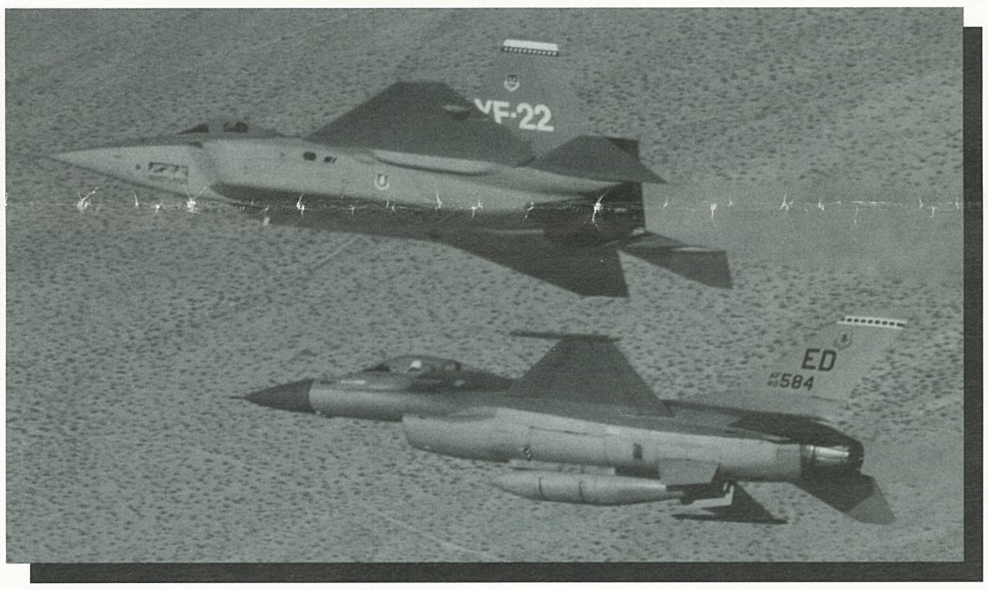

The Lockheed YF-22 Advanced Tactical Fighter prototype and General Dynamics F-16 Fighting Falcon symbolize the strength and technological capabilities of this corporate union.

WASHINGTON WATCH

National and Economic Security Share Billing in New Administration

President Bill Clinton's plan to control the deficit and boost the economy, revealed in his February 17 state of the union address, reinforced many of his campaign promises, but backed off from some of his more prominent pledges, including a program to reduce the deficit by half in his four years in office. Clinton had vowed that, if elected, his administration would confront and resolve the nation's economic and social problems first. He promised overhaul on a broad agenda of tax, spending, defense, export, technology, environmental, education, labor, and social issues and committed to an investment-oriented economic plan to spur the economy. There would be strong emphasis on job creation, health care reform, and training of the work force of the future, he repeatedly emphasized.

Clinton's proposed economic plan, in essence, places American business at the center of the impact zone. The Clinton Administration's economic goals and the nation's foreign policy concerns will influence as well the post-Cold War restructuring and consolidation of the Defense Industrial Base (DIB) now in progress. In fact, Clinton has followed through on a campaign pledge and created the White House National Economic Council to steer the nation's economy and promote U.S. competitiveness. Headed by Robert E. Rubin, former co-chairman of the banking investment firm of Goldman, Sachs & Co., member of an SEC committee, and director of the New York Stock Exchange, the council shares top billing with the National Security Council, the body that directs U.S. foreign policy.

President Clinton set the stage for this new direction with a two-day conference on the economy in Little Rock, Arkansas, in December, which was attended by a cross section of economists and leaders from business, academia, and government. In late December he followed with the appointment of Laura D'Andrea Tyson, a professor at the University of California at Berkeley and a well known "champion of industrial policy," to head the Council of Economic Advisers as part of his economic team.

Reports in early December that the economy had passed a critical bench mark — recovery from recession to the early stages of expansion — did not substantially change President Clinton's thinking in crafting his economic recovery plan, however. Focusing on what the administration views as "a jobless recovery," the president's plan includes a $30 billion short-term stimulus package in 1994 to be divided among new spending and tax incentives that he hopes would lead to the creation of 500,000 new jobs in the short term. Economists had warned in December, however, that accelerated economic growth runs the risk of higher inflation and that job creation as a short-term means to stimulate the economy should be reevaluated. In a meeting shortly after Clinton's election, the head of the Federal Reserve stated his concern to the president-elect about any economic stimulus plan that would permanently add to the budget deficit.

Financial traders, reacting to Clinton's plan which he hopes will reduce the deficit by 38% in four years, expressed concern that deficit reduction, when fueled by new taxes, could actually slow

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Lockheed

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General Dynamics attempted to become a buyer. Chairman Anders approached other firms about potential mergers and acquisitions. Lockheed and its "Skunk Works" (Lockheed Advanced Development Company) was a particularly attractive candidate. Combining the Fort Worth Division's skills as a very efficient producer with Lockheed's special talent for finding solutions to technical barriers in aviation would create an unbeatable combination and bring valuable enhancements to programs already underway in Fort Worth. General Dynamics was particularly intent on acquiring Lockheed's share of the F-22 program. As the premier next-generation aircraft currently in development, the F-22 has significant long-range potential and could provide the opportunity, as well, for General Dynamics to remain firmly in the development loop for advanced aircraft technology as orders for the F-16 wind down. But as it turned out, none of the candidates wanted to sell, and, in fact, Lockheed preferred being the buyer.

Since October 1991, when he first described GD's strategy of rationalization for ridding the industry of its overcapacity, Chairman Anders has stressed that for the strategy to work there must be both sellers and buyers. Amplifying on this, he told a gathering of analysts in September 1992: "At General Dynamics, we do not intend to stand by and watch any business wither into an anemic dwarf. We intend to explore every opportunity for creating program efficiency and Critical Mass in the core . . . [but] if the sale of a business or program is the only option that will provide that franchise Critical Mass and program efficiency, it will be considered."

While disappointed that there were only buyers, Anders was committed to taking the next step in applying the rationalization principles that the company had proscribed for industry consolidation. Sacrificing GD's nameplate was now "clearly the best way to preserve the Tactical Military Aircraft franchise."

The marriage with Lockheed creates a near perfect example of industry consolidation — strength combined with strength. In commenting on the potential sale at the December press conference, Anders said, "I feel a little like a father whose child has been adopted. My only disappointment is that I'd rather be a buyer than a seller." But as stewards of core defense franchises, GD's management has steadfastly maintained that it must place a higher priority on a franchise's strength and survival than on the company's ownership if it became necessary to sell.

Benefits of Consolidation Broad

The investment community has been largely supportive of General Dynamics' rationalization strategy. The fact that GD's core operations might be best served by merging them into other entities was recognized by UBS Securities Analyst Wolfgang Demisch following the September 1992 meeting of GD executives and analysts: "We believe the firm's effort . . . is sensible and courageous. It is clear that the reduced defense budgets of the '90s will not support a half-dozen combat aircraft suppliers and their overheads." Following the announcement of the Lockheed transaction, Jack Modzelewski, an analyst with Paine Webber, said: "Right now you have two strategies at work . . . You have to get larger or get a lot smaller. This gives Lockheed a Critical Mass, as GD would put it. Two plus two equals five. It really does work." DoD customers are also realizing that consolidation to reduce overhead and to lower cost is to their advantage as well.

The long-term benefits of consolidation with Lockheed are substantial: the economies of scale to ensure efficient, cost-effective production for the customer, more stable employment for the work force, and enhanced shareholder value. More specifically, it will marry Lockheed's renowned advanced design and development skills on such aircraft as the U-2, SR-71, and F-117 — products of Lockheed's legendary Skunk Works — with the widely recognized GD integration and production expertise that has made the F-16 the world's most cost-effective fighter aircraft. Lockheed's ability to conceive and promote F-16 variants will extend the life of that product well into the next century and position the company to be the leading contender for the Navy's AX program and the USAF's Multirole Fighter, considered the likely replacement for the F-16 at the turn of the century.

The new Lockheed Fort Worth Company is part of Lockheed's Aeronautical Systems Group. Their combined capabilities creates a $6.5 core aeronautical business that is ranked No.1 in the industry. The acquisition has also made the Fort Worth Division a part of the second largest U.S. defense prime contractor, the nation's third largest exporter of aerospace goods and services, the largest supplier of combat aircraft for the USAF, and the primary contractor for F-16 and F-111 fighter bombers — a real "critical worth."

As the leader in tactical military aircraft sales, Lockheed will rival McDonnell Douglas as the world's largest defense contractor.

Anders and Lockheed Chairman and CEO Daniel M. Tellep believe that this consolidation, in time, should reduce overhead costs on programs critical to national security, like the F-22. With its own share in the F-22 and GD's share, Lockheed will own about two-thirds of the F-22. The expanded business base and economies of scale that result from the merger will give Lockheed an advantage over European competitors in export sales. The two chairmen also noted that the consolidation will bring several important international programs under one, highly-focused management team. ■

The New Defense Industrial Base: Talking Points

Since General Dynamics Chairman and CEO William A. Anders first began championing "rationalization" of the defense industry in October 1991, the term, as well as respect for the strategy it defines, has gained significant recognition and repetition within the defense industry, the financial community, and government. References to *rationalization* and the related terms described below have become integral to discussions of the post-Cold War defense environment.

1. *Rationalization* is the term used to describe the restructuring of the Defense Industrial Base (DIB) to eliminate the overcapacity that exists following the end of the Cold War. Rationalization of the DIB involves both the private sector (industry) and the public sector (government labs, yards, depots, etc.). Effective rationalization requires **downsizing** and **consolidation** plus a rebalancing of private sector and public sector roles.

2. *Downsizing* means shrinking the size of individual operations within the DIB. **Consolidation** (through buying, selling, or merging) combines businesses or segments of the industry where necessary to form "new," highly focused defense companies able to obtain or further develop Critical Mass and reduce excess capacity.

3. *Core Competencies* at General Dynamics are those businesses that must demonstrate, first of all, what General Dynamics does best: major weapons systems platform integration. Secondly, each must achieve market leadership as the number one, or possibly number two, business in its market. Finally, each must have the potential to obtain Critical Mass and Program Efficiency as the DIB is rationalized.

4. *Critical Mass* is having sufficient "demand" (ongoing production and upgrade of related weapons systems programs) to efficiently utilize the "supply" (plant, equipment, technology, and skills) that represents the essential nucleus of a core defense competency. Critical Mass is the key to providing **Program Efficiency**.

5. *Program Efficiency* is the goal of rationalization. It requires the consolidation of programs and facilities from across industry to create efficiencies through economies of scale that will provide the customer high-quality, technically innovative, affordable weapons systems at sustained and profitable low rates of production and delivery.

GD is focused on obtaining and preserving **Critical Mass** and **Program Efficiency** in three core defense competencies: Armored Vehicles, Nuclear Submarines, and Space Launch Systems. The priorities for each, in order of importance, are: (1) program efficiency, (2) skilled work force and state-of-the-art production and technical facilities, and (3) preservation of General Dynamics' "nameplate"* (ownership).

*The General Dynamics nameplate is a well-respected trademark. However, GD's top management views ownership considerations per se as secondary to the future success and survivability of a critical defense franchise and its ability to serve the customer's national security requirements. ■

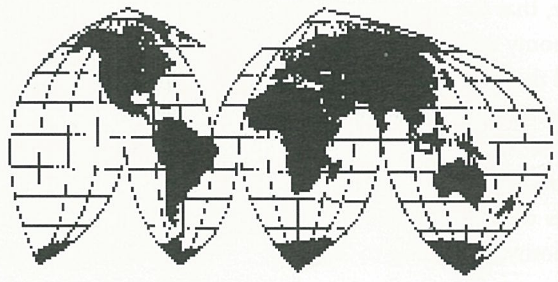
BUSINESS PERSPECTIVE

Keeping Cobwebs Off Assembly Lines: A View of International Sales In the Global Defense Marketplace

The anemic recovery of the U.S. domestic economy has its counterpoint in a sluggish international economic performance. It's a two-sided coin with complex budgetary, political, and national security implications etched on both surfaces. Sagging world economies and shifting national priorities following the end of the Cold War have caused some nations, like the United States, France, and England, to shrink their defense budgets, for example. Others, such as Japan, Korea, China, Iran, and Saudi Arabia, are actually increasing their defense spending as they prepare to take greater responsibility for their own security needs.

In essence, the dramatic geopolitical and economic shifts of recent years have created new markets for arms sales. Despite the optimistic assumptions following the collapse of the Soviet Union and the breakup of the Warsaw Pact, many still regard the world as a dangerous place. The threat of one big war — a global nuclear conflagration — has been replaced with bursts of smaller regional and ethnic confrontations as fragile nations engage in political reform and struggle with economic instability.

At the same time, increasing technological interdependence among nations creates a challenging dichotomy. The United States, as the strongest military and economic power in the world, may well want to retain its technological preeminence and forge a role in the changing strategic environment by assuring its ability to provide other nations with the tools they will need to defend their sovereignty.



However, overseas sales of advanced weapons systems, particularly to the growing arms markets in the Middle East and Asia, carry strong political overtones. They raise issues of U.S. national security and arms control. But rather than contributing to "runaway" arms sales and the proliferation of militarily relevant technologies and products, foreign military sales and direct sales to friendly, responsible nations in pursuit of their legitimate defense needs are beneficial. They help to deter future aggression from unfriendly governments and bolster the U.S. defense industrial base at the same time.

The U.S. government is not permitted to authorize weapons sales simply for the sake of a sale, market access, or to preserve jobs or critical elements of the defense industrial base. Agreements are written to support U.S. foreign policy interests, and, in fact, they can strengthen U.S. security controls and influence in global peacekeeping efforts. Because countries employing

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Industry Jumps Aboard Consolidation Train

OCTOBER 1991

The keynote address by GD Chairman William A. Anders at the 12th Annual Defense Week Conference introduced a strategy of rationalization to rid the defense industry of its overcapacity by reducing the number of suppliers through industry consolidation to more efficiently meet reduced demand for weapons systems. Rationalization became the industry catalyst driving the restructuring and consolida-tion of the U.S. Defense Industrial Base.

MAY 1992

■ **Hughes Aircraft Company, a** subsidiary of General Motors Corporation, announced its intended purchase of General Dynamics' missiles operations business for $450 million. The sale was finalized in August. The missile units acquired from GD — the former Air Defense Systems Division and the unmanned strike systems portion of the Convair Division — are being consolidated with Hughes' missile operations to form a single operation: Hughes Missile Systems Company. The acquisition enhances Hughes' ability to be competitive in a wide range of military missile systems. The new company should be a formidable challenger to rival Raytheon, the maker of the Patriot missile.

AUGUST 1992

■ **The LTV Corp. agreed to sell its** aircraft division to The Carlyle Group and the Northrop Corp. for $215 million in cash and preferred stock. LTV's aircraft division made portions of the B-2 Stealth bomber, the C-17 cargo carrier, and the tail sections of several Boeing jetliners. The sale, completed in September, renames the unit Vought Aircraft Corp.

■ **LTV also negotiated the sale of** its missiles unit to Loral for $261 million. The missiles division's biggest contracts were for the army's multiple-launch rocket system and its longer-range tactical missile system. This sale was also finalized in September.

OCTOBER 1992

■ **On October 5 The Carlyle Group,** an investment firm, announced it would buy GD's Electronics Division. The transaction was completed in November. The new company, named GDE Systems, specializes in applying digital technology to design, develop, manufacture, and support quality defense electronics for tactical and strategic forces. With estimated 1992 revenues of $300 million, GDE Systems is well-positioned in the defense market with high-growth potential in the commercial sector as well.

In another major address in October 1992, Chairman Anders told a gathering of industry human resources executives that rationalization was finally receiving the attention and respect it deserves. Industry consolidation, it appeared, was on track. Diversification and conversion efforts could be derailed, however, because they are not the "magic" solutions some thought they would be.

NOVEMBER 1992

■ **Martin Marietta and General** Electric have agreed to merge GE's aerospace division, a peripheral business for GE, into Martin Marietta. The mega merger, valued at $3.05 billion, is the biggest defense consolidation to date. Martin will become the world's largest maker of defense electronics, nearly doubling in size to estimated annual revenues of $11 billion at a fraction of the overhead of the two companies on their own. If the deal is completed, Martin will surpass GM Hughes Electronics as No. 1 in defense electronics.

■ **McDonnell Douglas announced it** will sell its Visual Simulation business to FlightSafety International. The sale was completed on February 1, 1993.

DECEMBER 1992

■ **Harsco Corp. and FMC Corp.** signed a letter of understanding to combine their defense subsidiaries. FMC would hold 60% controlling interest in the new firm, a combination of BMY-Combat Systems division and FMC's Defense Systems group. Harsco would own the remaining 40%. General Dynamics, FMC, and BMY are the three major U.S. manufacturers of combat tracked vehicles for the U.S. military. Harsco and FMC agreed that neither company wanted to commit significant new investment to the industry and that pooling interests, rather than arranging for one company to sell its business to the other, was the best option.

FMC, which manufactures the Bradley Fighting Vehicle and other tanks and armored vehicles plus naval gun and rocket launching systems, was facing the end of the Bradley production contract in 1994. Combining with BMY, the maker of the M88, the armored and tracked equivalent of a tow truck for the battlefield, and other tracked combat vehicles plus the M109A2 self-propelled howitzer, should enhance the already strong markets, domestically and overseas, that both companies now enjoy. Estimated 1993 sales are $1.2 billion.

■ **The Lockheed Corporation and** General Dynamics reached agreement for Lockheed to acquire GD's Tactical Military Aircraft business for $1.525 billion in cash. The transaction was completed in February 1993. It makes Lockheed the No. 1 low-cost fighter producer in the United States and a leading contender with McDonnell Douglas for military aircraft sales with estimated revenues of $6.5 billion against $7 billion for McDonnell. The new Lockheed Fort Worth Company is expected to generate revenues of $3 billion in 1993. Among the benefits to Lockheed as a result of the consolidation (*see related story on page 1*), Lockheed gains a bigger base for its defense electronics products. Lockheed did not assume any liability associated with the A-12 program.

JANUARY 1993

McDonnell Douglas announced it is outsourcing its internal data processing operations to an IBM subsidiary. The company has also agreed in principle to sell its international computer information division in the U.K. to an investor in London. ■

QUOTE

". . . As long as I am president, I will do everything I can to make sure that the men and women who serve under the American flag will remain the best trained, the best prepared, the best equipped fighting force in the world . . . Backed by an effective national defense and a stronger economy, our nation will be prepared to lead a world challenged as it is everywhere by ethnic conflict, by the proliferation of weapons of mass destruction, by the global democratic revolution, and by challenges to the health of our global environment."

President Bill Clinton's State of the Union Address, February 17, 1993

Washington Watch

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the economy in the short term and thwart Clinton's goal of 8 million new jobs in four years. Tyson believes, however, that the short-term boost for the economy will put it on a stronger path and the economic pain of deficit reduction will eventually be offset by a drop in interest rates. Reduced mortgage payments and corporate interest payments will pump more money into the economy, according to Tyson.

Clinton's View on Defense — President Clinton has defined national security to include economic security. His view is that U.S. global power, influence, and political leadership will only be sustained if the United States retains its economic and technological leadership.

As outlined during his campaign, the Clinton national security strategy has three underlying objectives. The first is rebuilding America's economic strength by concentrating less on "firepower" and more on "brainpower." Remaining engaged in the international arena and ready to counter threats to stability from communists and from continuing regional conflicts is the second objective. Finally, Clinton would allow "the power of American values" to play a critical role in shaping the post-Cold War era.

Before being elected, Clinton came out in favor of arms sales to foreign countries when they preserve jobs, strengthen the DIB, and promote U.S. security interests. In that context, he endorsed the sale of F-16s to Taiwan and F-15s to Saudi Arabia. At Secretary of Defense Les Aspin's confirmation hearing, Sen. Joseph Lieberman (D-CT) noted for the record that President Clinton "strongly during the campaign endorsed the protection of the submarine industrial base to carry us through to the time when we can begin building the smaller subs, the *Centurions*, later on in the decade." While Clinton had agreed with the Bush Administration that the *Seawolf* program should be terminated, he favored producing the second and possibly the third boats — on which considerable funds have already been spent — to facilitate an orderly downsizing of the submarine industrial base.

Clinton is said to be strongly committed to reinvesting every dollar cut from defense R&D into civilian R&D. He has pledged to wind down programs at a pace that would preserve crucial capabilities of the DIB needed in the post-Cold War strategic environment. Conversion efforts — transitioning as much military technology into commercial products as possible — are at the center of his prospective defense policy. He wants to double basic research in the key technologies for the future and supports a permanent extension of the R&D tax credit for industry. His economic plan also proposed additional tax credits for new investments in plants and equipment for businesses with revenues under $5 million.

Following Clinton's election, some political analysts predicted that the civil space program could be a winner in the new administration. Clinton favors a strong civil space program for the scientific, economic, and environmental benefits it engenders and the opportunities for international cooperation space exploration offers. He has advocated upgrading the existing fleet of expendable launch vehicles and continuing the Advanced Solid Rocket Motor program.

Vice President Al Gore elaborated on Clinton's space plan during the campaign saying they would be more supportive of the commercial launch industry. Other space priorities he outlined include improving the safety and reliability of the Space Shuttle, expanded cooperation with the Russians, completion of Space Station *Freedom*, and support for Mission to Planet Earth, a program intended to enhance understanding of the global environment and global change. These priorities might be modified due to budget concerns, and, in fact, the Clinton Administration has ordered NASA to once again redesign the Space Station to reduce costs.

Impact on FY 94 Defense Budget — Clinton's national security plan calls for further tightening of defense spending. While no specific information was provided on the size or composition of spending cuts, his economic plan revealed that through 1996 about $88 billion would be cut from the defense budget beyond the $50 billion in reductions advocated by former President Bush. Clinton's campaign talk set the figure at $60 billion. His choice of Leon Panetta (D-CA) — a leading voice in Congress for deeper cuts in defense spending — to head the Office of Management and Budget, and Alice Rivlin, a former director of the Congressional Budget Office, as Panetta's deputy administrator, puts two strong crusaders of deficit reduction in powerful positions on his economic team.

". . . Economic growth depends as never before on opening up new markets overseas and expanding the volume of world trade. And so we will insist on fair trade rules in international markets as a part of a national economic strategy to expand trade . . ."

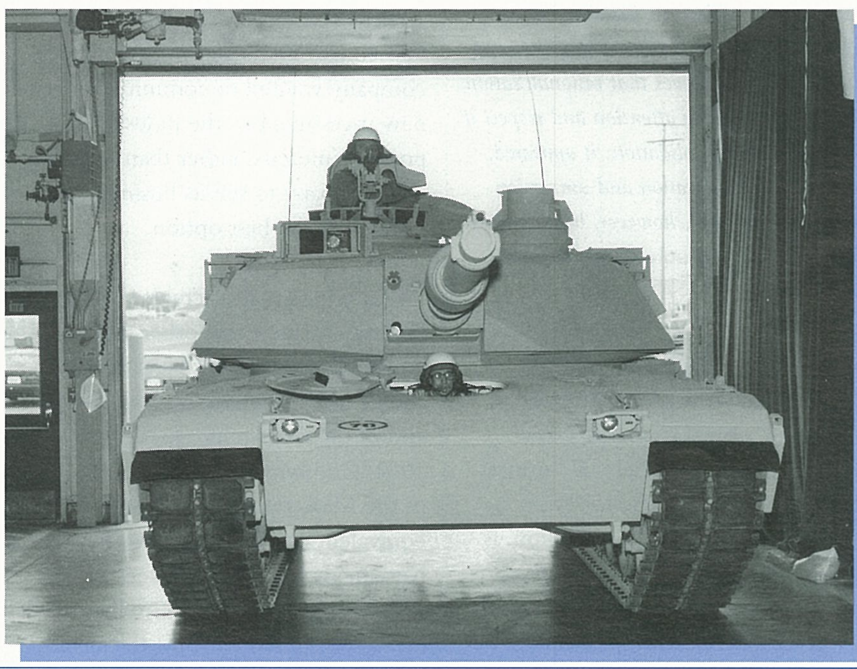
President Bill Clinton's State of the Union Address
February 17, 1993

The appointment of former Congressman and Chairman of the House Armed Services Committee (HASC) Les Aspin (D-WI) to be the new secretary of defense lends weight to Clinton's often stated concern for preserving the viability of the DIB. Aspin is also an advocate of advanced technology and selected low-rate procurement to preserve critical elements of the DIB. In addition to low-rate procurement to keep production lines "warm," the acquisition plan he revealed in early 1993 as chairman of the HASC recommended selective upgrade of existing systems to extend the life of equipment and preserve the capability of the armed services; "rollover-plus," a continuous process of developing and prototyping systems without going to full-scale production; and "silver bullet" procurements, meaning limited numbers of high-technology weapons systems.

The composition and leadership of the key House and Senate Defense Authorization and Appropriations Committees and Armed Services Committees has significantly shifted in the 103rd Congress. While support in Congress for GD's core programs remains essentially intact, GD's Washington Office Government Relations staff is meeting with new committee members, White House officials, and cabinet and agency heads and staff to acquaint them with the company's core programs and the critical impact their decisions could have on the economy and the DIB.

Free of the election-year job pressures that made legislators in the previous Congress reluctant to turn off support for major programs, members of the 103rd Congress will be in a better position to examine economic and national security concerns on an equal footing. In addition, the "fire walls" between spending categories will be removed from FY 94 defense budget decisions, which means defense programs will be competing for funding with domestic programs and foreign aid under a single spending cap. Through FY 93, the Budget Enforcement Act of 1990 had prohibited funds from being shifted into or out of the three "discretionary" (controlled by annual decisions on funding levels) spending categories — defense, international, and domestic. Beginning with the FY 94 budget, legislators can shift funds at will, potentially jeopardizing long-lead procurement of defense products.

President Clinton is expected to submit his 1994 budget proposal to Congress in early April. While rumors have been flying about program cutbacks and cancellations since Secretary Aspin directed the military services to prepare their program funding decisions for 1994, it could be late April before Congress gets fully immersed in FY 94 budget deliberations. However, the change in administration might also create opportunities to help both the nation's economy and preserve the Defense Industrial Base if new initiatives are taken to reduce some of the burdensome regulations and systems of the past 12 years, such as export licensing. ■



On December 18, the Office of the Secretary of Defense finally gave the official nod to the U.S. Army to execute the upgrade of 206 basic M1 tanks to the M1A2 configuration (right) and begin spending FY 93 money earmarked for the plan. The Army also has a phase II upgrade plan to reconfigure another 792 M1s to M1A2 beginning in FY 96 and extending midway into the next decade. Secretary of Defense Les Aspin is a proponent of selective upgrade of existing systems.

DECEMBER 1992 SSIP ANNUAL RATE OF RETURN

SALARIED	1990	1991	1992
Government Bonds	9.5%	10.6%	6.2%
Diversified Portfolio	–4.5%	31.0%	11.5%
Fixed Income	10.0%	10.2%	9.8%
* Special Distribution	N/A	N/A	4.1%
General Dynamics Stock	–41.5%	116.8%	95.5%

HOURLY	1990	1991	1992
Government Bonds	9.4%	10.3%	6.0%
Diversified Portfolio	–4.5%	30.6%	11.6%
Fixed Income	10.0%	9.9%	9.6%
Special Distribution	N/A	N/A	3.3%
General Dynamics Stock	–41.5%	116.8%	95.5%

	1990	1991	1992
GD Stock Closing Price	25.250	53.750	103.625
Average Purchase Price	25.220	54.377	104.471
Stock Growth	–43.7%	112.9%	92.8%
Dividends	2.2%	4.0%	2.7%

* General Dynamics dividends are included in the Rate of Return of General Dynamics stock. Proceeds from the "Dutch Auction" tender offer were deposited in the SSIP's new "Special Distribution Fund." The new fund can accumulate special distributions and income earned from their reinvestment. The fund cannot accept normal employee contributions to the SSIP. Rate of Return for Special Distribution is the annualized monthly year-to-date average.

International Sales

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GD's Land Systems Division rolled out the U.S. Army's first new production of the M1A2 tank at the Lima, Ohio, tank plant on November 12. Attending the ceremonies were (l to r) Gen. Gordon R. Sullivan, U.S. Army Chief of Staff; Maj. Gen. Peter McVey, Program Executive Officer, Armored Systems Modernization; and James R. Mellor, General Dynamics President and Chief Operating Officer.

U.S. weapons systems are technologically dependent upon the United States for maintenance, upgrades, and spare parts, they will consider good relations with the United States essential. This dependency allows the United States to leverage its influence over global arms proliferation.

U.S. Competitiveness and Technology Transfer

Larger numbers of foreign companies are now competing with the United States for market share. In some cases, U.S. manufacturers are cooperating with buyer nations and taking more subordinate roles than in the past just to be able to compete and win business. If industry is not able to cooperate, the business goes elsewhere.

As it is in the United States, the purchase of a costly defense system requires the support of a nation's citizens. It must make good sense for the buying country — both economically and for reasons of national security. In some situations countries are requiring that there be some identifiable economic benefit that "offsets" the cost of acquiring a foreign-made weapons system. For example, sometimes the customer will ask to manufacture a piece of the product itself in order to offset the total purchase price or to add jobs at home.

The U.S. Congress places restrictions and controls on foreign sales that would give away any future competitive advantage or would undermine national security. Critical, proprietary information is excluded from agreements and, in most instances, the technology the United States is transmitting overseas is not state-of-the-art. General Dynamics' FS-X fighter project with Japan provided a good illustration of political compromise relating to jobs and technology sharing.

In the 1988 agreement with Japan, 60% of the work on the program goes to Japanese firms and 40% to U.S. companies. The bulk of the American work was being done by GD as a major subcontractor and this is expected to continue under Lockheed. About 400 people at the Fort Worth (FW) Division had been working on the project in engineering and manufacturing. The FS-X agreement is a situation where "a job" has created jobs, albeit some in the United States and others not.

Regarding the issue of technology transfer, in the final negotiations with Japan, the U.S. government insisted on withholding secret U.S. computer source codes for flight control ("black box" data on the F-16's weapons firing computer), but through Fort Worth the United States is providing the aft fuselage, the leading edge flap, portions of the plane's avionics and test equipment, and part of the aircraft's wings. In return, the fighter aircraft company gets access to several key improvements Japan is planning to make: lightweight, single-piece carbon wings instead of the F-16's aluminum wings, an advanced phased array radar system that eliminates the time lag of traditional sweep radar, and computer controls that will allow pilots to move up, down, or sideways without losing contact with their targets.

In a compromise on another agreement — the Egyptian M1A1 tank sale — the U.S. government saw an advantage in allowing a U.S. ally to use grant funding to establish some domestic production capacity for a U.S. product. In a contract running through 1997, GD's Land Systems Division is delivering 530 tank kits for final assembly at an Egyptian plant in Cairo.

Foreign Sales Help Preserve Defense Base

Cutting edge defense technology has always been a bulwark of U.S. national security. Both supplier and customer benefit from the impetus to continued improvements or technology upgrades that foreign military sales provide. Lockheed's acquisition of GD's Tactical Military Aircraft business will enhance this capability. The economies of scale that will result from the consolidation will further strengthen Lockheed's posture as a low-cost supplier of military aircraft and electronics. *(See related story on page 1.)*

Foreign sales also assist U.S. defense manufacturers in meeting the challenges of economic competitiveness in the post-Cold War world. They help to preserve critical elements of the U.S. defense industrial base by assuring a certain level of business despite the decline in domestic sales. Foreign sales also drive down unit costs, create a more competitive production base, and contribute to keeping production lines vital to U.S. security "warm" and capable of responding quickly to national security emergencies.

Wolfgang Demisch, an analyst for UBS Securities, commented in a recent *Wall Street Journal* article that "Without the export market, you'd have cobwebs on the assembly lines." Furthermore, for U.S. weapons technology to be attractive to foreign buyers, the United States must maintain certain levels of production for its own use. Domestic production assures foreign customers that the U.S. government values the product for its technology, usefulness, and performance and that product support — spare parts, upgrades, training, and doctrine — will be available.

Sales and potential sales to the Middle East are bracing production lines at General Dynamics Land Systems (LS) Division. In mid-October, Kuwait announced that it was buying $1.5 billion worth of M1A2 tanks for delivery over two years beginning in 1994. LS is also in a competition with the German-made Leopard II for 200 tanks to be acquired by Sweden. Saudi Arabia will take delivery of 465 M1A2 tanks over three years beginning in 1993 and may buy as many as 235 more in a follow-up order. Foreign sales and the beginning of a new U.S. Army upgrade program will help Land Systems keep its M1 production line open throughout the 1990s.

The Lockheed Fort Worth Company is now the beneficiary of GD's negotiations with other nations for F-16 sales. On November 12, Taiwan and U.S. government officials signed a letter of offer and acceptance for the sale of 150 F-16A/B fighters manufactured in Fort Worth. The total cost is $5.8 billion. On November 20, government officials representing the United States and Singapore signed a letter of offer and acceptance for the sale of 11 F-16 A/B aircraft valued at $310 million. A proposed sale of 40 F-16 fighter aircraft to Greece was approved by the U.S. and Greek governments in early January 1993. Added to the 24 F-16s the USAF plans to procure annually, the sale strengthens the F-16 production base for the rest of the decade.

Cooperative International Agreements

Shared production and joint ventures among friendly governments are an increasingly important strategy as nations adjust to the new geopolitical and budgetary realities of this decade (*see "*EB Joins Venture*" on page 6*). Strength is combined with strength. The economies of scale and efficiencies these "partnerships" provide make the combined business a stronger and lower cost producer than either might be "going it alone." Many companies simply cannot afford to develop certain advanced technologies on their own.

> ***"Many of this nation's friends and allies face would-be regional aggressors. Foreign sales would support our industrial base, contribute to a favorable balance of trade, and help preserve the peace."***
>
> William A. Anders
> General Dynamics Chairman and CEO

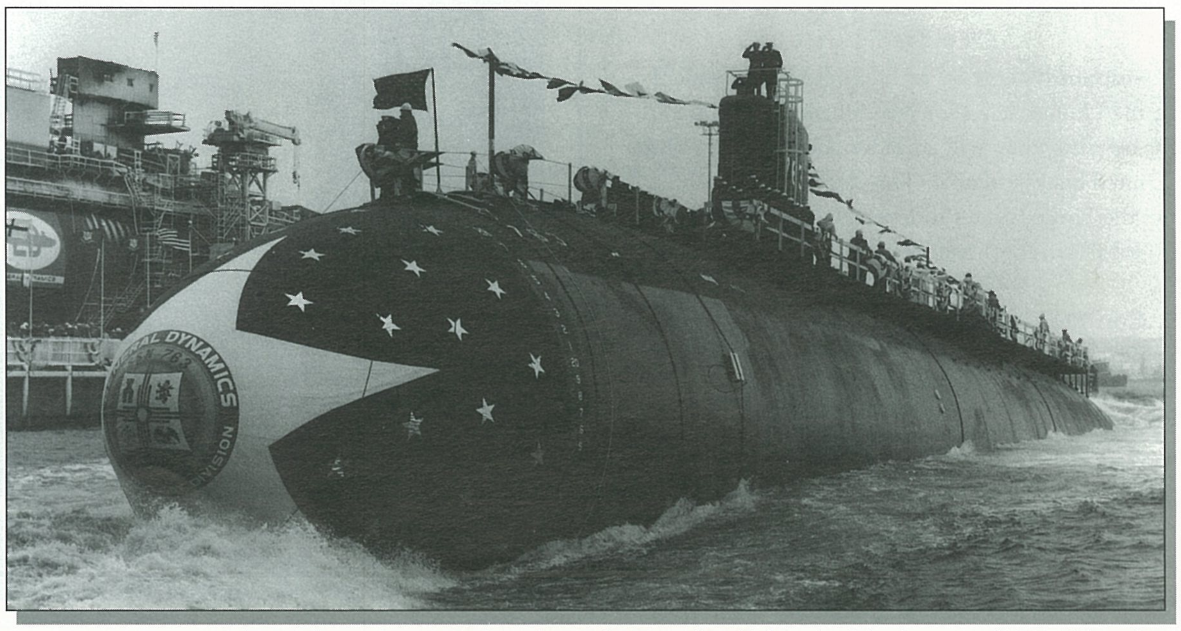
Continued on page 6

NEWS DIGEST

Launch Complex Modification

The USAF awarded a contract to GD's Space Systems Division to modify Space Launch Complex 3 East (SLC-3E) at Vandenberg AFB (CA) to accommodate Atlas/Centaur launch vehicles. The first phase of the contract, valued at $112.6 million, includes ground equipment development and project integration. The contract will be expanded to include facility design, construction, and activation.

Currently, SLC-3E is configured to launch only the Atlas booster without the Centaur upper stage. The site has been in minimum maintenance status since 1987. Work was begun at the end of 1992, and the complex is expected to begin launch operations by mid-1996. By adding the capability to accommodate the Centaur high-energy upper stage, Atlas launches from SLC-3E will place USAF, NASA, and other customer payloads into polar orbit to achieve mission objectives that are not readily available with existing Atlas launch sites at Cape Canaveral. ■



Sen. Pete V. Domenici (R-NM) was the principal speaker at the December 12 launch of the Santa Fe (SSN763) at the Electric Boat Shipyard in Groton, CT. The Santa Fe is EB's 31st submarine of the Los Angeles Class. Twenty-nine of these submarines have been delivered to the U. S. Navy.
Photo: Fred Webster

Kuwait Tank Buy

The Kuwait government signed a Letter of Intent on February 14 confirming its purchase of more than 200 M1A2 Abrams main battle tanks. This action enables the U.S. Army to authorize General Dynamics Land Systems Division (GDLS) to proceed with long-lead procurement and planning start-up activities that will pave the way toward actual production.

The final stage in the contractual procedure between Kuwait and the United States is the exchange of a signed Letter of Offer and Acceptance (LOA). The LOA will contain details of all the equipment and support services requested by Kuwait and will allow the U.S. Army to contract with Land Systems for the full production program and in-country support.

Kuwait announced in October its selection of the M1A2 Abrams over the UK/Vickers Challenger II main battle tank. The Kuwait sale, combined with other international sales and tank upgrade program for the U.S. Army, will keep Land Systems building tanks through the late 1990s. Land Systems has a very good chance to gain additional international sales in Sweden in early 1994 and has been very successful in gaining main battle tank sales to Saudi Arabia. Prospects for follow-on requirements are anticipated from Saudi Arabia.

Global competition for tank sales remains intense, and many nations are now demanding offset requirements as a condition for competing. The United Arab Emirates announced on February 14 that it will buy 390 Leclerc tanks and 46 recovery vehicles from the French firm GIAT Industries. While acknowledging that the M1A2 is the best current tank in production, the UAE indicated that GIAT, its primary supplier of armor and combat aircraft, won the competition with the UK/Vickers and U.S./GDLS, because the French were prepared to funnel back 60% of the cost into industrial investment in the UAE. Over the long term, however, as the only country with a "hot" production base, the United States is well positioned to meet continuing Gulf Cooperation Council tank requirements. ■

EB Joins Venture

Electric Boat and Wartsila Diesel International Ltd., a Finnish manufacturer of diesel engines, are forming a joint venture to produce Wartsila-designed diesel engines for the U.S. Navy's strategic sealift program. The venture will also produce the engines for diesel power plants in developing countries and for commercial shipbuilding. EB will supply the work force, equipment, and facilities. The manufacturing operation is the first in the United States for Wartsila and will be located next to EB's hull fabrication plant at Quonset Point, Rhode Island.

The venture will employ up to 150 people at Quonset Point and up to 600 more in support roles at EB and sub-suppliers. Potential annual revenues of $100 million for the joint venture plus another $400 million annually for EB and sub-suppliers has been forecasted by Wartsila's management. Wartsila, the world's largest manufacturer of medium-speed diesel engines for both marine power and electrical generation, preferred a U.S. manufacturing sight because the U.S. Navy will likely require that at least 51% of the sealift engine components be produced in the United States. The modular construction and heavy transportation equipment at Quonset make it possible for EB to supply the Navy with a completely built stern section for a sealift ship with propulsion system, generating sets, and all controls already in place.

In another facet of its market extension program to preserve essential elements of the submarine industrial base until construction begins on the *Centurion* in 1998 at the earliest, EB joined a Connecticut delegation accompanying Rep. Sam Gejdenson, (D-CT) in January for five days of talks with leaders and executives in Taiwan on the modernization of its navy. Prohibited by the U.S. Navy under the Bush Administration from exporting either diesel or nuclear submarines, EB discussed providing large diesel engines, power generators, and modular ship construction techniques to Taiwan. However, nonsubmarine business will support, at most, only 1,000 of EB's 19,000 workers. ■

International Sales

continued from page 5

Unlike an acquisition or a new operation, a joint venture doesn't require as much capital investment or debt because what each has to offer is already in place.

Direct and indirect offsets have also become a fairly commonplace marketing requirement in today's highly competitive international environment. "Direct" offset relates directly to the product being sold; "indirect" offset has no direct connection to the manufacture or service of the product itself. Offset guidelines and laws can require up to 100% offset of the sale's total contract value. General Dynamics' policy is to offer offset only when it is required by the foreign customer as a condition of competition. Typically, GD will not offer to offset sales of spares, small repetitive sales, or non-competed sole-source sales.

General Dynamics' first major experience with an offset program was in carrying out a unique, pioneering country-to-country, co-production offset program established by the United States with the governments of Belgium, Denmark, the Netherlands, and Norway. This program is well known as the F-16 European Participating Governments program. This is a prototype example of a direct offset program, that is, each buyer of the F-16 fighter shared a part of the task of manufacturing and assembling the fighter airplane product. The value of the work performed by each buyer nation "offset" part of the hard currency expenditure cost of purchasing the aircraft. Given the lack of U.S. export financing for defense products, offset takes on great importance to less wealthy buyer nations.

In the 1980s, General Dynamics signed contracts for and satisfied more than $3 billion in offset commitments to 10 foreign customer countries. Along with the offset obligations, the company gained more than $23 billion in F-16 and other defense product export sales. The United States experienced an improved balance of trade, recouped R&D costs for the F-16 fighter aircraft, and obtained an overall lower cost for the United States F-16 fleet because of the magnitude and impact of these substantial international sales. ■

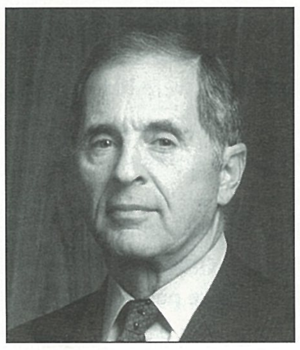
GDWorld

GENERAL DYNAMICS — A STRONG COMPANY FOR A STRONG COUNTRY

VOLUME 23 NUMBER 2 JUNE 1993

Responding to Change: The Foundation of General Dynamics' Corporate Strategy Past, Present, and Future

Anders Describes Company's Dramatic Turnaround to Meeting of Shareholders



William A. Anders

Chairman William A. Anders described to shareholders at their annual meeting on May 5 the foundation of the strategy General Dynamics has been following since 1991 when the company's new management team took office. At that time, General Dynamics was a $10 billion conglomerate faced with serious operating and financial challenges. In November 1990, for example, the company's stock had dropped to $19 or 40% of its book value per share. As Anders reminded shareholders, "By pricing your shares at 40% of book value, the stock market was saying that they believed that 60% of the billions of dollars that had been invested in General Dynamics over the years had no value whatsoever — a pretty sorry commentary on our company's performance by potential shareholders."

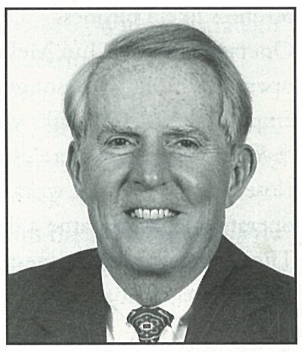
Now, a little more than two years later, General Dynamics has undergone a dramatic turnaround and has emerged as a highly focused, $3.5 billion major defense platform integrator that is well-positioned for the future. The response from the financial markets to GD's turnaround has been very positive: for the two-year period of 1991-1992, General Dynamics ranks #1 among the entire S&P 500 in total return to shareholders, compared with a performance ranking in 1990 of #454.

Contracting Defense Markets Spurred Change

Anders described the fundamental changes General Dynamics' key defense markets were undergoing as the company's new management team took office in January 1991. Most significantly, the end of the Cold War brought "intense economic and political pressures" for further cuts in defense spending that promised to be both deep and structural. Defense budgets had already been steadily falling in real terms through the late 1980s.

Continued on page 2

CEO Mellor Focuses on Improving Efficiency and Productivity in Major Defense Businesses



James R. Mellor

Today General Dynamics is a highly focused corporation with a combined total backlog in its three major defense platform businesses of nearly $9 billion. Another $3-4 billion of orders is already in the pipeline.

With this measure of success in place, General Dynamics' new CEO and President, James R. Mellor, told shareholders at their annual meeting on May 5 that he is dedicated to realizing the full value embedded in each of its continuing operations: Armored Vehicles, Nuclear Submarines, and Space Launch Systems. His commitment is threefold:

- To continue to provide value for shareholders.
- To deliver affordable, high-quality products to customers.
- To ensure as stable a business environment for employees as markets will permit.

Mellor pledged to continue the successful strategy the company has been executing since January 1991:

"Because of the strategic restructuring of the past two years, your company is now solidly positioned for strong future performance for its shareholders, its customers, and its employees. In that regard, I want to make one thing absolutely clear. General Dynamics' fundamental strategy will remain unchanged. I have participated with Bill [Anders] and Harvey [Kapnick] in developing that strategy. I participated in executing it over the past two years. I remain fully committed to the principles upon which it is based."

Continued on page 4

WASHINGTON WATCH

DIB Issues Influence Budget Process

The Clinton Administration's FY 94 defense budget calls for $250.7 billion in budget authority for the fiscal year that begins on October 1. The procurement portion of the budget request is $45.5 billion, down 15% from the $53.6 billion Congress approved for FY 93.

The FY 94 defense budget process appears to be following its usual course with scheduled markups of the House and Senate authorization and appropriations bills undergoing frequent revision. At press time, congressional watchers predict that the House Armed Services Committee (HASC) will not have the FY 94 defense authorization ready for a vote by the full House until after the July 4 recess. The House Appropriations Defense Subcommittee tentatively plans markup of the appropriations bill in June and expects to bring it to a floor vote in the full House before the August recess.

Despite the fact that the Senate Armed Services committee (SASC) has not scheduled markup of the authorization bill, the Senate Appropriations Committee expects to take a spending bill to the Senate floor for approval in late July.

The hitches in this year's schedule are attributable to several factors: a new administration struggling to establish an economic policy, proposed legislation dealing with the conversion of defense technology to commercial use, intense debate on homosexuals in the military, and uncertainty regarding the results of the "bottom-up" review of Pentagon weapons systems/defense needs ordered by Defense Secretary Les Aspin. The

Continued on page 3

Second Special Distribution Declared

On June 2 General Dynamics' Board of Directors declared a special distribution of $18 per share on the company's stock. The special distribution is payable July 12, 1993, to shareholders of record June 21, 1993. The special distribution is the second such payment made to shareholders under the Plan of Contraction adopted by the Board in May 1992. The first special distribution was $20 per share paid in April 1993.

Board Chairman William A. Anders said, "We remain firm in the belief that returning funds in excess of our financial and reinvestment needs directly to our investors represents the most efficient way to convert excess defense assets to productive non-defense uses. Including today's Board action, since January 1, 1991, General Dynamics has returned approximately $3 billion to its lenders and shareholders for them to reinvest in America for growth, new jobs, and a stronger international competitive edge for our nation."

In a separate action, the Board of Directors also declared the regular quarterly dividend of 40 cents per share on the company's common stock. The regular dividend is payable August 13, 1993, to shareholders of record July 16, 1993. As of May 2, 1993, General Dynamics had 31 million shares outstanding. ■

Academy Endowment

General Dynamics will contribute $4.5 million to the alumni organizations of the three military service academies for perpetual endowment of chairs in Economics of the Defense Industrial Base. The $1.5 million grants to the alumni groups at the U.S. Military Academy, the U.S. Naval Academy, and the U.S. Air Force Academy are subject to approval by the respective service secretaries.

The grants were offered in recognition of the importance of preparing America's future military leaders to deal with future needs in preserving a viable defense industrial base, William A. Anders said, in announcing the awards on April 7.

Anders Describes Turnaround

continued from page 1

While the nation was deciding how the end of the Cold War would affect its Defense Industrial Base, Chairman Anders viewed General Dynamics' greatest challenge as getting its own house in order. The first task he identified was "to more aggressively run the business like a business." Under President and Chief Operating Officer Jim Mellor, executives with strong operating skills were sought and increasingly empowered to act. Risks were reduced, stringent new investment criteria were established and adhered to, and close management of working capital and other operating assets became a disciplined priority. Throughout every business, productivity and efficiency became major goals.

Business Focus Defined as Major Defense Platform Integration

A second task identified by Anders was to focus on the company's area of greatest strength — major defense platform integration. A plan to systematically divest businesses not in GD's primary area of expertise was implemented and Anders was pleased to tell shareholders that "not one of the businesses originally under the company's stewardship has closed down — a fate which befell far too many businesses during past defense contractions."

Once the business focus was clearly defined as major defense platform integration, the new management team set up additional criteria to ensure that each business would come through the contraction of its market in a position of strength. First, each should demonstrate market leadership by being #1, possibly #2, in its market segment. Second, each had to have a characteristic Anders calls "Critical Mass." Businesses had to pass each of these tests in turn or General Dynamics "would act to meet these criteria through acquisition, joint venture, merger, or, if necessary, through the sale of a business."

Anders described the execution of this part of the strategy as taking some surprising turns. "To date," he explained, "the attempts we have made to acquire businesses have been unsuccessful. Not one other company in our key market areas has been willing to sell. For example, we approached Lockheed Corporation and others with the intent of buying another military aircraft business to ensure long-term strength for the Fort Worth Division. While Lockheed eventually agreed that consolidation was needed in the military aircraft marketplace, it was unwilling to sell and instead countered GD's proposal with an offer to buy the Fort Worth Division."

Anders described the reasoning that eventually motivated GD's Board of Directors to negotiate the sale to Lockheed, which closed in March 1993:

"Tactical Military Aircraft represented one of our strongest businesses in the near term. But longer term, when the F-16 would be inevitably replaced by a next-generation aircraft, Fort Worth's prospects were uncertain. Doing nothing was an unacceptable alternative. As stewards of the Fort Worth franchise, even if it meant taking the General Dynamics' name from over the door, your Board and management had a responsibility to act to ensure long-term market leadership and Critical Mass for the Tactical Military Aircraft business.

GD's Strategy Unlocks Shareholder Value, Generates Strong Performance on All Fronts

General Dynamics has met the challenge of putting its own house in order, Anders reported. Productivity and efficiency in the operations are on an upward trend, ensuring continued affordability for customers. Cash flow from operations is solidly positive.

The increase in shareholder value — from #454 in the S&P 500 in 1990 to #1 among the entire S&P 500 in total return to shareholders — is based on equally dramatic gains in company performance. As Anders explained, "Two years ago, though we were bigger, General Dynamics ranked dead last in Return on Sales and Return on Assets, and next to last in Return on Equity in the Fortune 500's aerospace group. I'm pleased to report that this year, Fortune ranked General Dynamics the number one aerospace company in all three of these key measures of corporate performance. Clearly, by every measure your company has experienced a real and dramatic performance turnaround over the past two years."

General Dynamics' management team set clear priorities to guide the use of the substantial amounts of cash that came as a result of their successful efforts to improve the company's operating practices and business focus. The first priority, Anders recounted, is to ensure ample liquidity and a strong balance sheet. The second priority is to ensure financial capacity for internal and external investment in support of the company's major defense platform businesses. Both have been more than satisfied.

The number of new defense programs in GD's major platform businesses has been substantially reduced, making opportunities for internal investment in defense quite limited for the foreseeable future. For decades, a steady stream of shareholder funds was invested in General Dynamics to support the Cold War arms build-up, but with the Cold War over, these massive assets are no longer needed.

"Therefore," Anders told shareholders, "as we unlock the value of the shareholder investment which had been trapped inside the company, it is only right that these excess funds be constructively redeployed for the benefit of their owners — you the shareholders."

The Board and management carefully evaluated various options for effective redeployment of excess funds, including expanding General Dynamics' involvement in non-defense markets. Concepts such as diversification and conversion, while "alluring," Anders said, have resulted in economic failure rates of some 80% by prime defense contractors who have attempted to enter commercial markets. "At General Dynamics," Anders reminded shareholders, "the historic failure rate was even higher . . . [and] it would be irresponsible for us to attempt to invest shareholder dollars in businesses in which we have no competitive edge or expertise simply to maintain or expand the size of the company."

Instead, General Dynamics decided to return funds directly to shareholders through regular dividends, share repurchases, or special distributions. "As a result — through ongoing debt reduction, a share repurchase program, regular dividends, and a recent Special Distribution — to date we have returned to our lenders and shareholders approximately $2.2 billion for them to reinvest in America for competitive strength and new jobs," Anders said. {*This figure will rise to approximately $3 billion in June when a second Special Distribution in 1993 is made to shareholders. See article on page 1 for details. — Editor*}

"Two years ago, though we were bigger, General Dynamics ranked dead last in Return on Sales and Return on Assets, and next to last in Return on Equity in the Fortune 500's aerospace group. I'm pleased to report that this year, Fortune ranked General Dynamics the number one aerospace company in all three of these key measures of corporate performance."

Management Structure Revamped

While dramatically stronger than two years ago, the company has also trimmed down to three major weapons platform businesses — Nuclear Submarines, Armored Vehicles, and Space Launch Systems — and going forward the "new" General Dynamics' more streamlined business structure will require an equally streamlined management structure. The company's ongoing commitment to shareholder value, Anders said, requires continuous enhancement of policies for corporate governance as well. Accordingly, a restructuring of the company's management, corporate headquarters, and Board was announced on March 18:

Effective May 5, 1993, President James R. Mellor would assume the additional duties of Chief Executive Officer. While Anders would step down as an employee of the company at the end of May, he would remain as Chairman of the Board of Directors and retain the primary responsibility for corporate strategy. Anders would also continue to be personally involved in shareholder interface and the resolution of such outstanding issues as the ongoing dispute regarding the A-12 termination. At the end of May, Vice Chairman Harvey Kapnick would retire from the company but continue as a non-employee Vice Chairman of the Board and Chairman of the Finance Committee.

Anders recounted that Kapnick came out of retirement in 1991 at Anders' request to provide the new

Continued on page 3

ETHICS Questions or Concerns?
Use Your Business Ethics Hotline
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Calls Kept Confidential
Or Write To
GENERAL DYNAMICS
P.O. Box 3434
Merrifield, VA 22116-3434

Turnaround

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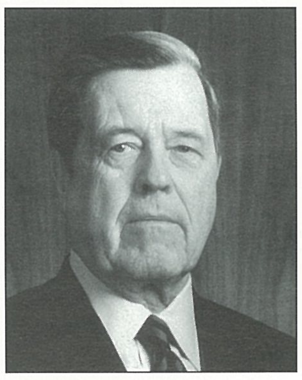
management team full-time access to Kapnick's "impressive grasp of strategic, transactional, and financial matters." Anders praised Kapnick's achievements:


Harvey Kapnick

"Over the past two years, he has identified undervalued assets throughout the company and guided our efforts to realize their full value. Similarly, his skill in clearly defining and removing financial liabilities throughout General Dynamics has been truly remarkable. His personal contribution to our gains in shareholder value has been substantial."

These changes, plus the elimination of the "group" executive structure and reduction of General Dynamics' corporate headquarters staff over the next year from 250 to 50, will eliminate two layers of senior management, reduce future overhead costs, and further empower operating management. Anders pointed out that these restructuring initiatives also enhance corporate governance by separating the roles of the Chairman of the Board and the Chief Executive Officer, making the Board even more independent of company management. The Chief Executive Officer will be the only employee of the company on the Board of Directors.

Other changes planned for the Board over the coming year — such as lowering its size and age requirements — will further enhance corporate governance. "This transition plan also ensures continuity of strategy, oversight, and management as your company completes its strategic restructuring," Anders said.

Anders closed his remarks with high praise for Mellor:

"Your new Chief Executive Officer, Jim Mellor, is 'playing to strength.' Jim has been an integral part of the strategic restructuring of General Dynamics from its inception. He made a very favorable impression on me during 1990 as I was preparing to become CEO in January of 1991. Therefore, when I became CEO, I recommended to the Board that he be elected President and Chief Operating Officer. He has been an invaluable part of your new management team through the successful development and implementation of our strategy over the past two years. With the strategic restructuring of the company nearing completion, future gains for our shareholders, customers, and employees will increasingly flow from effective day-by-day management of General Dynamics' continuing operations. Jim's track record has been outstanding, and I consider him the ideal executive to lead the leaner, more focused General Dynamics of the future." ■

Washington Watch

continued from page 1

review, which is currently scheduled for completion in July, is important because it is expected to lay out the Clinton Administration's commitment to DoD for the next five years. For industry it is an indication of the long-term priority that will be given to various weapons systems competing for funding.

The end of the Cold War and the dissolution of the Warsaw Pact continue to have a bearing on proposed defense spending in the budget process. However, a recent poll taken for President Clinton and the Democratic National Committee indicates that events such as the conflicts in Somalia and Bosnia have swayed the American public to be less supportive of defense cuts than a year ago. In addition, the debate on crucial Defense Industrial Base issues is gaining momentum, and there is increasing realization that domestic product upgrades and international sales go hand in hand. Congress is aware of the impact of foreign defense competition on the U.S. economy and national security and understands that in today's spending environment government-to-government foreign military sales to friendly and responsible nations are essential to sustaining certain U.S. domestic defense programs. These sales help to control costs and are also a factor in deterring future aggression from unfriendly governments. The Clinton Administration signaled support of U.S. defense exports when Secretary of State Warren Christopher directed all U.S. embassies in early May to give top priority to advancing U.S. economic interest and explicitly stated that the Undersecretary of State for International Affairs will oversee foreign defense trade.

Third Seawolf Gains Momentum

In his election campaign, President Clinton acknowledged the importance of the *Seawolf* in preserving the nuclear submarine industrial base. There now appears to be increasing support among the Office of the Secretary of Defense (OSD), the Navy, and the Congress to build the third *Seawolf* as the best means of sustaining that base until construction begins on a new attack submarine. OSD, lawmakers, and others are becoming convinced that without continued low-rate production, the experienced, highly trained, nuclear submarine labor force will quickly evaporate along with the suppliers of key submarine components. In fact, many key components are now down to a single U.S. source. Maintaining an adequate industrial base at Electric Boat is especially important because GD's Electric Boat Division is designing the propulsion system for the Centurion and is in pursuit of winning the competition to design the rest of it and, ultimately, to build the vessel.

Congressional support for the *Seawolf* emerged in 1992 when the Bush Administration tried unsuccessfully to rescind funding of the second and third submarines. Rejecting the Bush rescission, Congress directed construction of the second sub and designated $540 million of FY 92 funds to be applied to advanced procurement for the SSN-23, restart of SSN-688 production, or other actions that would maintain the submarine industrial base. Sen. D'Amato (R-NY) recently proposed moving the Navy's plan to request a third *Seawolf* in 1995 into the FY 94 request and using the $540 million of FY 92 funds already appropriated for the submarine industrial base to fund it. An estimated additional $1.6 billion would be required to complete the SSN 23.

Electric Boat's president, Jim Turner, has been active in presenting General Dynamics' views on submarine industrial base issues. On May 12 he questioned the viability of "reconstitution" of the submarine industrial base after a shutdown of production in an address before the Submarine League and outlined the logic and necessity for building a third *Seawolf*. He also appeared before a Senate Appropriations Defense Subcommittee panel on May 27, which is examining the Clinton Administration's request for $1.6 billion in the FY 94 defense budget to aid conversion efforts *(see page 4)*.

Army Funds M1A2 Upgrade

The FY 94 DoD budget provides $94.3 million for continuation of Phase I of the Abrams upgrade program and $42.9 million for ongoing M1A1 activities. The first phase of the $4 billion upgrade program — 210 tanks to be completed in 1996 — has been fully funded by Congress in previous years at $883 million.

The estimated $3 billion price tag to complete the second phase of the program — the upgrade of 792 M1 tanks by 2002 or 2003 — is reportedly only partly funded in the Pentagon's multiyear defense plan. A series of budget decisions in December 1992 reduced the original funding of $1.5 billion to about $750 million, but since then Army officials have raised that amount to $900 million and could recover up to $500 million more through reprogramming actions.

A successful and historical "Battlefield Integration Demonstration" was conducted on March 25 using the Inter-Vehicular Information System (IVIS) with five M1A2 tanks, one IVIS-equipped Bradley Fighting Vehicle, and IVIS-compatible helicopters and fire support systems. As a result, Gen. Frederick Franks, the Commanding General of the Army's Training and Doctrine Command, directed that a master plan to digitize the battlefield be developed. General Dynamics M1A2 tanks are equipped with IVIS, a computerized voice and data-transmission system developed by GD for sharing information that will allow helicopters, tanks, and artillery systems to communicate.

U. S. and Russia Draft Launch Agreement

Russia's entry into the expanding and highly competitive international commercial launch market, which is now dominated by the United States and the Europeans, has prompted a preliminary agreement between the United States and Russia designed to assure that Russia does not destabilize the market through "fire sale" pricing. The United States has a similar agreement with China that expires at the end of 1994 and which binds that nonmarket economy to pricing levels on a par with Western competitors. U.S. government concerns on protecting the nation's industrial base and U.S. national security by assuring fair competition underlie the agreements.

The U.S./Russia agreement places specific controls on the prices that Russia can charge potential customers. This levels the playing field for the United States by essentially denying the former Soviet Union the ability to slash prices and underbid competitors in order to win contracts. The agreement also limits Russian commercial launches to a total of eight between the summer of 1993 and the end of 2000.

Compliance regulations are needed before the agreement can be finalized which is expected to be sometime this summer. Management from General Dynamics' Commercial Launch Services, along with others from industry, are concerned that it will be very difficult to enforce compliance regulations. ■

APRIL 1993 SSIP ANNUAL RATE OF RETURN

SALARIED	1991	1992	1993
Government Bonds	11.8%	8.8%	7.1%
Diversified Portfolio	15.8%	15.1%	8.3%
Fixed Income	9.9%	10.2%	9.1%
* Special Distribution	N/A	N/A	4.5%
General Dynamics Stock	11.2%	76.4%	48.3%

HOURLY	1991	1992	1993
Government Bonds	11.6%	8.6%	6.9%
Diversified Portfolio	15.8%	14.7%	8.4%
Fixed Income	9.7%	10.0%	8.9%
Special Distribution	N/A	N/A	3.6%
General Dynamics Stock	11.2%	76.4%	48.3%

	1991	1992	1993
GD Stock Closing Price	37.625	65.375	95.375
Average Purchase Price	37.925	65.658	98.449
Stock Growth	8.3%	73.8%	45.9%
Dividends	2.8%	2.7%	2.4%

* General Dynamics dividends are included in the Rate of Return of General Dynamics Stock. Rate of Return for the Special Distribution Fund is the annualized monthly year-to-date average.

Mellor Focused on Efficiency

continued from page 1

Mellor affirmed that as General Dynamics moves forward it will continue to focus on its greatest strength — major weapons platform integration. He dismissed "risky experiments" in diversification and conversion. "Frankly," Mellor said, "these are not new ideas to your company — or our industry. Time and time again we have proven to ourselves — generally at your expense — that they hold little potential for earnings and great potential to diminish your investment . . . My intent is to let you — the holders of our stock — individually address your requirements for diversification by continuing to return assets in excess of our operating requirements directly to shareholders."

"At your company," Mellor continued, "we intend to continue to place our primary focus on ensuring that high-quality, affordable, and profitable weapons systems are available for America's National Security. Accordingly, we remain open to the acquisition, joint venture, or sale of a business, if necessary, to meet that objective."

Achievements and Future Goals Described

Mellor described the strength of General Dynamics' three primary business units. Individually, each would qualify as a Fortune 500 company; with total annual revenues of about $3.5 billion, together they would rank as #142 in the Fortune 500, he said.

The priorities for each of these businesses, Mellor continued, are "simple and straightforward: a strong focus on steadily improving efficiency and productivity in our operations, coupled with continuing emphasis on high quality and product affordability for our customers."

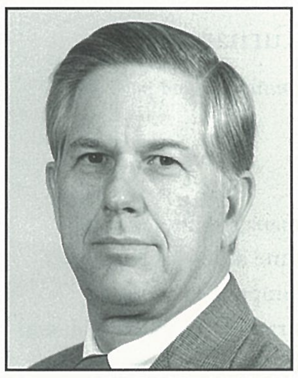
Progress in each of the continuing operations over the past two years has been substantial, he noted:

- ❑ Productivity has increased 55% since 1990.
- ❑ Operating margins improved from a negative 8% in 1990 to a positive 5% in 1992, a positive trend expected to continue.
- ❑ Operating assets as a percent of sales have been cut nearly in half since 1990 — dropping from 37% to 19% of sales.

Mellor plans to continue building upon these achievements and has targeted additional and significant improvements in the continuing operations:

- ❑ Production procedures are being revamped to further improve productivity and efficiency at the lower unit volumes demanded by customers today.
- ❑ "Span times" — the amount of time it takes to fully integrate a weapons platform — are being reduced to further shrink inventories and working capital requirements.
- ❑ Unwarranted risks and contingent liabilities throughout the corporation are being isolated and strategies devised to mitigate or eliminate them.
- ❑ And, while management will not hesitate to carefully target investment for improved efficiency, productivity, and product quality, it will continue to maintain strict controls on all discretionary investment.

James J. Cunnane



James E. Turner

Management Team Focuses on Operational Goals

Mellor introduced the corporate officers present at the meeting and reviewed the major defense platform businesses.

o Finance and Administration. James J. Cunnane will continue in his role as Chief Financial Officer but take on additional responsibility as Senior Vice President, Finance and Administration.

Mellor described Cunnane as "an invaluable part of our turnaround team" who has "skillfully managed" the dramatic changes in the company's capital structure and control systems over the past two years. "Equally important," Mellor added, "his efforts have helped rebuild General Dynamics' credibility with investors."

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EB's Turner Testifies on Defense Conversion

Appearing before the Senate Appropriations Defense Subcommittee on May 27, Electric Boat President Jim Turner told subcommittee members that converting nuclear submarine work to commercial production was not feasible. This was Turner's second appearance before the subcommittee in two years, the first time to describe the impact of reduced submarine procurement on the industrial base.

The Senate panel is examining the Clinton Administration's request for $1.6 billion in the FY 94 defense budget to aid conversion efforts. As a result of the hearing, Sen. Daniel Inouye, (D-HI), chairman of the subcommittee, asked Turner and two senior officers from Grumman and GM Hughes to create a panel to report back to the committee by July 31. Inouye was dismayed that the administration had not asked any of the three industry executives for their advice on defense conversion.

In his remarks, Turner agreed with a defense conversion report which concluded that a strong and expanding economy, providing employment for those workers no longer needed for defense production, must be the basis for an effective conversion effort. But before developing plans to retain critical industrial base capabilities, Turner emphasized, the government must first project its basic defense requirements.

In speaking specifically to the submarine industrial base, Turner told the subcommittee that "conversion is not a silver bullet for defense industry woes." In the design, construction, and life cycle support of nuclear submarines, in particular, "what works for one defense contractor won't necessarily work for all defense contractors," he said. To illustrate, Turner described in detail the complexity of the submarine industrial base — both of its products and the processes needed to build them. While shared by the shipbuilding industry, the capabilities used to produce surface ships and submarines are not found or used anywhere else in the design/manufacturing world, Turner emphasized.

Facilities and equipment are integral to the submarine industrial base, but Turner told the subcommittee that the real key to national capability is the work force. "Without a critical mass of experienced and motivated design, engineering, and production personnel, there is no possibility of sustaining the skill mix needed to build nuclear submarines," he stated. The primary objective of EB's market-extension business initiative, Turner explained later, is to help maintain the work force needed to stay in business over the long term as a full-service submarine builder. The market extension program "will not come close to offsetting the decline in the submarine business nor will it preserve key design and construction capabilities," he said.

In the concluding portion of his testimony, Turner reiterated that dual-use production to preserve the industrial base won't work in the submarine business. Submarines have no commercial application, he said, and the only real way to sustain the industrial base is to design and build submarines. That translates into low-rate production to keep the industrial base "warm" over the near term. The best way to accomplish this, Turner stressed, is by committing to construction of the third *Seawolf* the $540 million allocated by Congress in FY 92 for preservation of the submarine industrial base.

Turner called for a national investment strategy that would focus on the preservation of the unique and critically needed capabilities of the submarine industrial base. A key element must be a new acquisition approach that maintains low-rate production. The design and construction of submarines would be viewed as providing baseline capabilities as well as the potential for modular modifications for specific Navy missions.

"The effort to sustain submarine design and construction capabilities should be seen as an integral part of a larger effort to preserve the nation's entire shipbuilding industrial base, which encompasses submarines, aircraft carriers, surface combatants, and auxiliaries," Turner told subcommittee members. He added that if the government is able to describe future defense requirements and they include the maintenance of the nation's submarine design and construction capability, General Dynamics would support the position of Deputy Defense Secretary William Perry. At a subcommittee hearing a week earlier, Perry advocated continued low-rate production at a single submarine shipyard. "This, we are convinced, is the most effective and affordable way to sustain the submarine industrial base," Turner concluded. ■

Appointments Announced

Michael R. Wash has been appointed President of Commercial Launch Services, Inc., a subsidiary of General Dynamics. Wash had been director of marketing at Hughes Space and Communications since 1991. His career includes 20 years of experience at NASA.

Thomas K. (T.K.) Mattingly has been appointed Deputy Atlas Program Director at General Dynamics Space Systems Division. Mattingly was previously with Grumman Space Station Integration Division. He will have broad-based responsibilities in the Atlas program including schedule and development of the Atlas IIAS.

Mellor Focused on Efficiency

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o Electric Boat (EB). EB President James E. Turner is heading up the Nuclear Submarines business at a critical time in its history. As a group executive during the previous two years, Turner supported Mellor's efforts to improve efficiency and productivity at the Land Systems and Nuclear Submarine operations. He also worked closely with Anders on Capitol Hill and in the Pentagon to help focus government attention on critical Defense Industrial Base issues.

Mellor noted that Electric Boat has a firm backlog of more than $5 billion — five Trident-class, four 688-class, and two *Seawolf*-class submarines. In addition to having designed and built more nuclear submarines than any other U.S. supplier, EB continues to play a key role in modernizing and repairing these ships. The U.S. Navy has recognized EB as the world's premier designer and integrator of nuclear submarines, and, in fact, this operation is the only yard currently doing design work for the next-generation Centurion attack submarine.

Management's objective in this business is to continue the performance gains made over the past two years. Mellor told shareholders that the company's program to reduce risk and increase efficiency and productivity have produced significant results:

- Nuclear Submarine operating profits increased 12% in 1992 and were up 36% in the first quarter of 1993.
- Operating margins grew two full percentage points during that same period.

"Clearly, Electric Boat represents solid value," Mellor said. "Given its large backlog and growing productivity and efficiency, we expect it to continue to generate steady operating gains and strong future cash flows."

o Land Systems. Mellor announced that Roger E. Tetrault has been transferred from EB and named President of Land Systems. Tetrault follows George Psihas, who retired from Land Systems in May and who "has done an outstanding job for the company."

Tetrault left Babcock and Wilcox in July 1991 to join General Dynamics as part of its turnaround team. Mellor praised Tetrault as "an outstanding leader and businessman in the trenches at EB. Roger's realistic and hands-on approach to running a business is perfectly suited to leading our tank business into the future."

Mellor praised the state-of-the-art M1A2, the successor to the U.S. Army's Abrams M1A1 tank, which proved itself as the world's best during Desert Storm. The M1A2 brings to battle tanks for the first time the sophisticated electronics needed to closely link armored vehicles with each other, with air power, and with satellite systems. "It truly 'digitizes' the battlefield," Mellor said, "[and] it should, therefore, come as no surprise that the M1A2 is currently the world's most sought after battle tank."

CEO Mellor told shareholders that the solid base of domestic production — the U.S. Army's two-phase program to upgrade approximately 1,000 of their older model M1 tanks to M1A2 status — has generated considerable foreign interest in the M1A2. Saudi Arabia and Kuwait have orders for more than 550 M1A2s. Mellor said these orders should add considerably to backlog over the next few quarters, and he noted there is also strong potential for additional foreign orders in the years ahead.

Expanding production of M1A2 tanks, in combination with ongoing increases in efficiency and productivity, has generated steady earnings gains in the Armored Vehicles business. Operating profits increased 21% in 1992 and grew 31% in the first quarter of 1993. Margin gains have been solid, as well, increasing nearly a full percentage point in 1992.

o Space Launch Systems. Michael W. Wynne, a 20-year veteran of General Dynamics, is President of the company's third major platform business: Space Launch Systems. Mellor stated that Wynne "has proven himself in a wide range of management positions in both operations and at corporate headquarters."

The Space Launch business has a solid market niche, and from Mellor's perspective, turning around the Space Launch business represents a "real challenge" for General Dynamics and a "significant opportunity" as well:

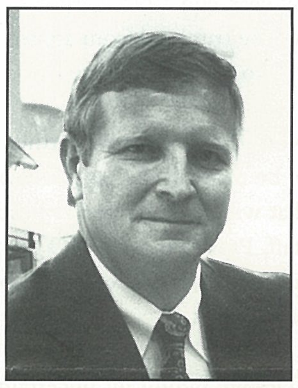
"Over the past three decades it has delivered more than 500 Atlas launches, and today it is America's sole provider of mid-range launch vehicles and services. As we analyze launch markets over the next decade or so, the mid-range market is clearly the most active one. And, while this is a business that requires substantial up-front investment, at General Dynamics the bulk of the investment for the Atlas program is now behind us. In addition, thanks to the successful efforts of Mike and his marketing team, over half of that 62 launch program is now sold or under option."

Mellor told shareholders that Space Launch Systems has the potential to generate solid value for the company. He reported that Wynne and his team have made significant progress over the past two years. Financial results have improved markedly, and the launch program had gained momentum in the first half of 1992 before it was temporarily stalled by a failure in the Centaur upper stage of the launch vehicle. With that problem identified and corrected, the launch program resumed in March and the Centaur stage performed flawlessly. However, Space Launch experienced its first anomaly with the Atlas stage since 1977 when the March satellite launch failed to achieve proper orbit due to insufficient thrust from the Atlas booster stage.

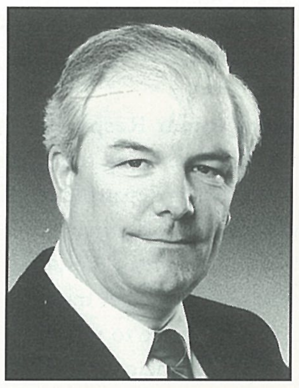
The preliminary results of an internal investigation have indicated a problem with workmanship on a particular component, rather than an inherent problem with vehicle design or launch procedures. Mellor said that if this finding held up through the scrutiny of an independent oversight review board, he expected a relatively early resumption of the launch program. {*The review board's concurrence with the investigation's finding was announced on June 8. — Editor*}

Mellor concluded his review of Space Launch Systems' operating performance and prospects for the future:

"We are now in the process of expanding our services to U.S. Government markets by activating a new launch complex at Vandenberg Air Force Base. And, providing the Clinton Administration remains committed to ensuring fair and equitable treatment from Chinese and Russian launch providers, General Dynamics will be fully competitive in international commercial markets. In addition, Space Launch's expertise in handling super-cooled fluids — sometimes known as cryogenics — has established your company as a leader in a rapidly expanding market for superconducting magnets and derivative technologies."



Roger E. Tetrault



Michael W. Wynne

Mellor and Anders Will Continue Successful Strategy

GD President and CEO Jim Mellor stated his commitment to General Dynamics' primary objective as the company moves forward: to realize the full value embedded in the company's continuing operations.

While the tactics employed in this effort will become more operationally focused, both Mellor and Chairman Bill Anders emphasized to shareholders that the successful strategy and the principles upon which it is based remain unaltered. "With a proven management team in place, General Dynamics is poised to deliver on the company's commitment to product affordability and quality for customers, business stability for employees, and increasing value for shareholders." ■

Anders Receives Honors

In April William A. Anders became the first recipient of the American Defense Preparedness Association's (ADPA) Industry Leadership Award. ADPA President Lawrence F. Skibbie, in presenting the award, said Anders "has been unswerving in his dedication to building a government-industry consensus on reshaping America's industrial base to retain the capability to provide superior, cost-effective weapons systems for national security in the post-Cold War era."

A month later, the May 14, 1993, edition of *USA Today* carried a "dream-team" of U.S. industry all-star corporate directors, and Anders was on the list.

"If you could woo these nine people to serve as directors for a single company, you could invest your life savings and sleep soundly," the article listing the "dream team" began. Also named to the elite group were Warren Buffett, Barbara Hackman Franklin, Stanley Gault, Barbara Jordan, Ira Millstein, Ben Rosen, John Phelan, and Carla Hills.

Last Issue of *GDWorld*

As part of General Dynamics' plan to empower divisions and to streamline the corporate headquarters and control overhead costs, the employee newspaper *GDWorld* is being discontinued with this issue. Employees will continue to receive the publications and other communications vehicles currently being provided through their division. News of corporate-wide importance will be channeled to the divisions for appropriate dissemination.

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Editor/Desktop Publishing Kathy Linse

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Restructuring Underway at Corporate Headquarters

When General Dynamics' new management team took over in January 1991, its task was to turn around an underperforming company. Exceptional progress has been made since then in rebuilding operating and financial performance and in strategically reshaping the company to meet the demands of a rapidly contracting defense market. (*See "Responding to Change" beginning on page 1.*)

To ensure that the corporate headquarters organization (CHQ) is equally lean and highly focused, a comprehensive plan to change the size and structure of CHQ is now underway. By year-end 1994, corporate office staff will be trimmed from approximately 250 to 50 individuals.

Noting that there are further decisions to be made in the next several months that will affect corporate headquarters staff, President and CEO Jim Mellor had words of praise for corporate office employees:

"Despite significant uncertainty and change, the continued hard work and dedication of staff during this period of transition has not gone unnoticed or unappreciated."

Management Responsibility

Functions are being reorganized under the following departments: Finance and Administrative Services, Government Relations, Human Resources, and General Counsel. A transition team also remains in place to ensure a smooth transition as the corporate office adjusts to its leaner structure and altered role over the next year.

Finance and Administrative Services. Chief Financial Officer James J. Cunnane has been appointed Senior Vice President, Finance and Administration. In September he will take on oversight responsibilities for Information Systems and Administrative Services at CHQ in addition to his current duties. In that regard, Asaph (Ace) H. Hall, Corporate Vice President, Information Systems and Administrative Services, will now report to Cunnane until Hall's retirement on September 1.

At CEO Mellor's recommendation, the responsibilities of three other executives reporting to Cunnane have also been broadened. Charles D. Walbrandt has been named Corporate Vice President and Treasurer, adding to his current duties as Corporate Vice President, Trust Investment Operations. J. Steven Keate has been appointed Corporate Vice President and Controller from Staff Vice President and Controller. Joining the department is Joseph T. Doyle, who has been named Corporate Vice President, Internal Audit. Doyle had been Vice President of Finance for the Marine, Land Systems, and Services Group.

Also reporting to Cunnane are Mark Woolley, Corporate Vice President, Strategic Planning; Tom Gavin, Corporate Vice President, Taxes, and Molly R. Salky, Corporate Vice President, Investor Relations. All are continuing in their current assignments.

Government Relations. Gerald "Kent" Bankus, has been named Corporate Vice President, Government Relations, and will direct the company's Washington governmental operations beginning December 1, 1993. This office will continue to provide congressional oversight and marketing services to the corporation's three continuing operations. Henry J. Sechler will remain in his current position as Corporate Vice President, International Business Development.

Human Resources. Ralph W. Kiger has been named Corporate Vice President, Human Resources, and will head up a streamlined Human Resources and Security organization at corporate headquarters.

General Counsel. Nicholas D. Chabraja, Senior Vice President and General Counsel, oversees the legal department at GD's corporate headquarters. The General Counsel's office will continue to be involved in corporate legal actions and shareholder and financial reporting legal requirements. ■

Message from the Chairman

As I transfer the duties of Chief Executive Officer to Jim Mellor and concentrate upon my responsibilities as non-employee Chairman of the Board, I want to express my deep gratitude to all of you — the thousands of General Dynamics employees — who have supported our efforts to strengthen the company and ensure its place as a major force in the post-Cold War Defense Industrial Base.

The challenges we have successfully addressed together since 1991 have been immense. We reinvigorated our company's financial health through increased efficiency, improved productivity and other steps requisite to effective business operations. With sound financial health, we have been able to cope with the vast problems posed to the defense community by the Cold War's demise from a position of strength.

We embarked on a program to further strengthen General Dynamics by concentrating our focus on defense businesses where we were or could be preeminent, while leading the industry through a period of much-needed consolidation. The result, as you know, has been a sharp reduction in the size of our company — and a sharp increase in its performance and future viability.

Despite difficulties and uncertainties over the last few years, General Dynamics employees have continued their proud tradition of quality workmanship and technological achievement. At the same time, we have become the No. 1 performing company in corporate America in return to shareholders, including our fellow employees for whom we have generated more than $350 million through the SSIP program. Our management and our work force have served the nation very well in the process of consolidating the nation's Defense Industrial Base.

I speak for all the officers of your company in saying thank you for jobs well done. I know that you will continue to provide strong support to Jim Mellor as CEO, and I look forward to continued success for Jim and for all of you.